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30 JUL 1975

MEMORANDUM FOR: Director of Logistics

FROM :

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SUBJECT : Study of Small Purchasing Function in
the Office of Logistics

REFERENCE : Memo dtd 2 May 75 to C/P&PS/OL, C/PD/OL,
C/RECD/OL, and C/SD/OL fr D/L Subj:
Procurement Management Staff, OL, Staff
Study

1. Action Requested: Paragraph 3 of this memorandum contains six recommendations for your approval.

2. Background: In accordance with the reference, the small purchasing function in the Office of Logistics has been reviewed. To provide perspective for this review, the small purchasing activities in three other Government agencies and an industrial organization were visited and examined: Goddard Space Flight Center (GSFC), Department of State, Defense Supply Service - Washington (DSS-W), and Westinghouse Defense and Electronics Systems Center. Discussion and background material based on the review of OL components and the visits to the external activities are contained in Attachment A.

3. Recommendations: It is recommended that:

a. All small purchasing activities in the Office of Logistics be placed under the control of the Procurement Division under a single manager who will be responsible for managing the functions of the [REDACTED] Staff, the General Purchase Branch, and the Small Purchase Branch.

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b. A simple reporting system be established which will provide individual production, backlog, and throughput data on a daily basis.

c. A production standard be established for each Purchasing Officer and each organizational unit which will be incorporated in LOI and MBO objectives.

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SUBJECT: Study of Small Purchasing Function in the
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d. A formalized training program for small purchasing be developed and implemented for each purchasing agent which will include rotation of personnel among the different purchasing sections.

e. A study and plan for phasing out [REDACTED] be made. 25X1A

f. The Safehouse Branch remain under the Real Estate and Construction Division.

4. Attachment B contains a plan for implementing the recommendations in paragraph 3.

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[REDACTED]
Procurement Management Staff, OL

Atts.

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STAFF STUDY

I. PROBLEM

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To determine if the activities now conducted separately in the General Purchase Branch, the [REDACTED], the Small Purchase Branch, and the Storehouse Branch can be carried on more efficiently and effectively under a single organizational unit.

II. ASSUMPTIONS

A. The volume of requisitions requiring small purchase action will remain about the same.

B. Requirements for [REDACTED] materiel will continue to be received. 25X1A

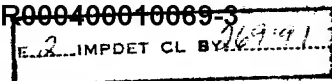
III. DISCUSSION

A. Productivity and Management

1. Mr. Sidney David, formerly in charge of the Navy Department's small purchasing activity and a recognized consultant, lecturer, and authority on small purchasing, stated that the daily production standard for an expert purchasing officer in the Navy was set at 15 "buy's" or purchase orders per day. This standard was established after careful study and observation of the purchasing function; and the following circumstances applied: (1) the purchasing officer was well qualified; (2) he had practically no administrative or processing duties--all he had to do was to locate the source and place the order; (3) appropriate use was made of blanket purchase orders, requirements contracts (indefinite delivery), and cash funds; (4) each requisition listed only one line item. In Mr. David's opinion, a daily production standard of eight "buy's" would be a reasonable goal for the purchasing officer, such as ours, who has to devote something like 20 percent of his work day to such administrative functions as item clarification, customer liaison, follow-up, discrepancies, and vendor payment.

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2

2. From information obtained from supervisory personnel at the four small purchase activities observed outside of the Agency, average daily production per buyer was indicated as follows: Westinghouse - 14, GSFC - 8, DSS-W - 7, State - 4. The equivalent figure for the Agency is 4.4.

3. Of these four, the situation at Westinghouse was unique in that the great majority of the items purchased were for standardized manufacturing programs and was positively identified by part number, specification or drawing number, and source before reaching the buyer's desk. This fact plus the fact that the Westinghouse buyers alone appeared to have no significant administrative duties to cut into their buying time would account for the high rate of buyer productivity there. The duties of buyers in the other three activities appeared to be more analogous to the Agency's situation. See Exhibit I for situational characteristics in each activity surveyed.

4. The significant ingredient observed which seemed to account for GSFC's superior productivity was "management". The Procurement Operations Chief and his Small Purchases Chief really managed their operation. They stated that when they did nothing more than institute a daily production reporting procedure for each buyer, individual output increased markedly and remained at the higher level. Since that time, they have instituted simple report forms designed to show individual production as well as processing or "throughput" time (the time span from receipt of a requisition to placement of the purchase order) and, especially, to permit management to keep on top of and control the small purchasing backlog. (See Exhibits II, III, and IV.)

5. Their goal is to maintain a backlog of one week's production which, they have found, seems to be about right for inducing the desired level of productivity. Personnel are shifted from or to the Expediting Section as the backlog exceeds or falls below that level. Individual and organizational productivity goals are built in to their MBO program. Although the GSFC buyers are relieved of follow-up work in general, it is

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unique with this organization that the buyers have to type their own RFQ's and purchase orders. GSFC management estimated that only 10 to 20 minutes per day were needed to fill out the individual Daily Production Log forms.

6. The other activities visited obviously lacked positive management techniques of the GSFC people and, in general, seemed to be reactive rather than anticipatory. No formalized effort to keep track of individual productivity seemed to be made in these other organizations, although they all were highly motivated to provide service to their customers.

7. In the Agency, production standards for small purchasing have not been developed and used. Of the three Agency units involved, only GPB collects production figures on an individual buyer basis; but this is done weekly, incidental to the collection of data for the Branch's weekly production report.

8. Use of daily and weekly production analysis reports along the lines of Exhibits II, III, and IV would provide the manager with the data he needs to manage his backlog either through work distribution or by shifting personnel from one section to another. Establishment of individual and sectional production goals would be in keeping with one of the basic features of Management by Objectives. Moreover, units of work used for measuring output should be uniform throughout the reporting components. (See further discussion on units of output under "Organization.")

B. Organization

1. Of the five activities surveyed, only the Agency had the small purchasing function fragmented in terms of location and responsibility. Examples:

a. The Mission and Function statements for the [REDACTED] and the Small Purchase Branch both cite a responsibility for serving as a "quick-reaction procurement facility."

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b. [REDACTED] SPB, and GPB all buy NNT and materiel.

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c. [REDACTED] and GPB, although both are in the Procurement Division, are physically separated and report independently to the Division Chief.

d. SPB reports to the Chief of the Central Depot and is located in the Depot.

e. Assignment of requisitions requiring procurement action is made by a unit of the Supply Management Branch of the Supply Division directly to the sub-divisional procurement units.

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f. GPB reports production in terms of requisitions completed and purchase orders placed; but [REDACTED] and SPB use only the completed requisition as the unit of production.

2. Under these conditions, management of the purchasing workload, control of the backlog, optimal utilization of personnel, and uniform career development and training programs can not be efficiently effected. There is no single point of responsibility for all small purchasing requirements.

3. The designation of a single manager within the purchasing organization is a prerequisite for backlog management and personnel utilization. Not only could a person knowledgeable in purchasing preclude the majority of the misassignment of procurement actions which now occurs, but with daily production and backlog reports such a person could direct the flow of requisitions to or from those persons or units with excess or overloaded capacity.

4. Admittedly, if one is looking at work accomplishment in terms of serving the customer, the number of requisitions satisfied is the more pertinent statistic; but in terms of work output, the buyer's job is to buy, and this is measured more accurately by the number of buy's he or she makes in a given period. Production statistics should be consistent throughout the purchasing activity.

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C. Staffing and Training

1. With the exception of the Department of State, where the Chief of Procurement stated that his five buyers had been there "for years in the same jobs," the Agency's grade structure for buyers in the small purchasing activity was noticeably higher than that in the other activities surveyed. See Average Grades and Grade Ranges in Exhibit I.

2. The grades of Agency management personnel are also considerably higher than in the other Government activities. For instance, in DSS-W the Chief of the Purchases Branch with its [REDACTED] employees is a GS-13. Under him are two GS-12 Section Chiefs, each of whom supervises [REDACTED] buyers. Typing support for this Branch is provided by two GS-04 and one GS-03 clerk typists. The Chief of the Procurement Branch in the Department of State is a GS-14, while the Chief of his Purchasing Section is a GS-13. The Chief of GSFC's small purchasing section is thought to be a GS-12.

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3. The fact that at GSFC and DSS-W only the Section Chiefs can sign purchase orders may be related to the lower grade structures at those locations. However, if anything, this situation would tend to restrict productivity; and yet production per buyer is relatively high there.

4. Of the five activities, Westinghouse alone had specific educational requirements for buyers: 1 year of college level studies for Jr.'s; 3 years for assistant's; and a degree for Buyers.

5. In the matter of training, all activities divided the learning cycle into two phases: purchasing up to \$5,000 per transaction and purchasing from \$5,000 to \$10,000 per transaction. The dividing line occurs because of the clauses and documentation required for purchases over \$5,000.

6. Assuming a GS-07 level employee of average ability with no previous buying experience, Mr. David estimated that such a new buyer could be carrying his weight in the first phase by the end of 3 months if

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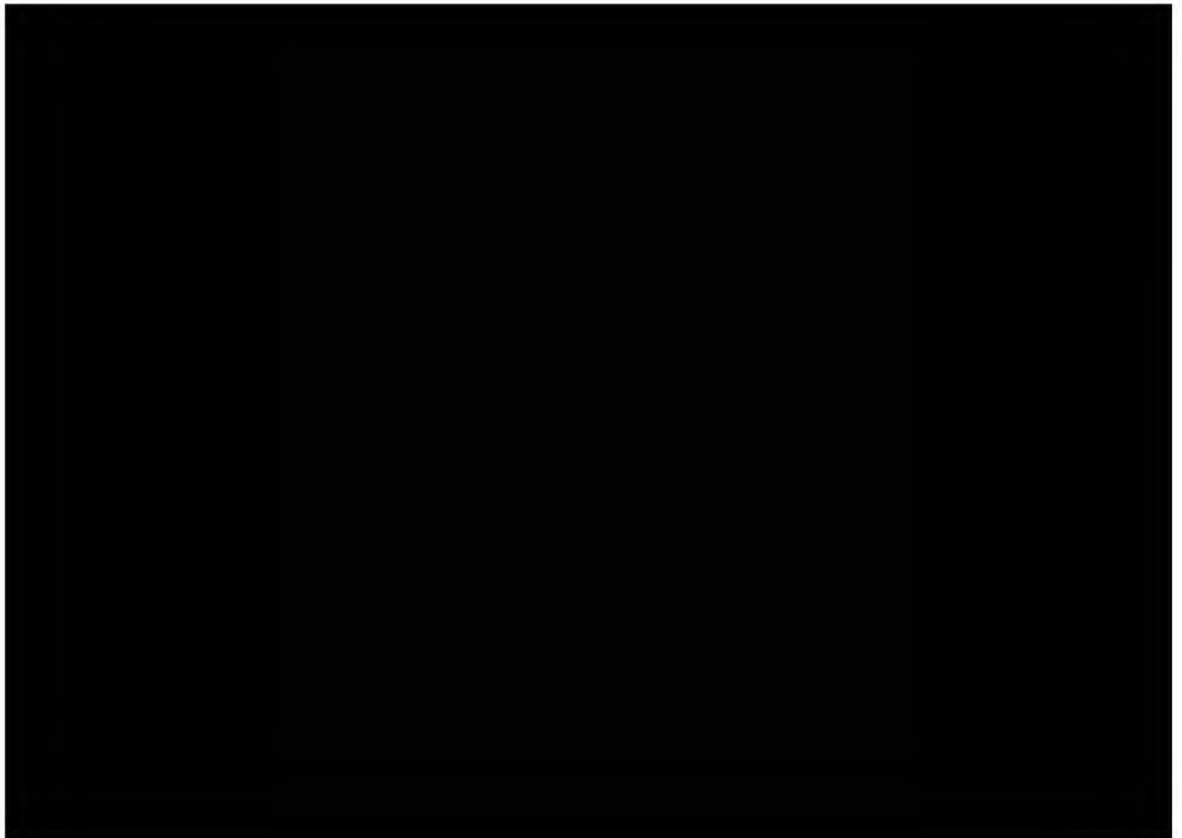
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he were motivated and if his supervisor were a conscientious instructor with a plan for training. An additional 3 months would be required to reach proficiency at the \$10,000 level.

7. With the exception of Westinghouse which, of course, is not governed by ASPR's or FPR's, the interviewee's generally concurred with this schedule except that some considered an overall span of 9 months to be more realistic than the 6 months suggested by Mr. David.

8. In the Office of Logistics, only GPB had a formalized, systematic training program for new purchasing personnel. Depending on workload and other factors, it was estimated that 6 to 9 months would on the average be required for completing the training outlined.

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IV. CONCLUSIONS

A. The presently fragmented small purchases organization does not permit the centralized management control needed to maximize productivity through backlog management and optimal utilization of manpower.

B. The present practice of having the Supply Management Branch, SD, assign the action responsibility for requisitions requiring small purchases directly to individual branches or staffs is not logical from a management standpoint and results in a significant amount of non-productive time and effort.

C. Considering the experience and grades of the personnel engaged in the Agency's small purchase program, average productivity per buyer is too low. Allowing for follow-up and other administrative duties, an average of 6.5 buy's per day per buyer is considered to be a reasonable standard.

D. With an average output of 6.5 buy's per buyer per day, the entire small purchasing job could be done with 6 fewer purchasing agents and probably with fewer management and support personnel.

E. An across-the-board, formalized training and development program for purchasing agents would promote individual growth and assist the Manager of Purchasing by providing uniformly trained personnel who could be shifted as necessary to respond to workload requirements.

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IMPLEMENTATION PLAN

1. To provide the proper environment for a smooth transition of the unit and functional transfers recommended in this study, it is proposed that the following implementation schedule be followed:

a. Transfer control of SPB/CD/SD from the Supply Division to GPB/PD. This in effect will place the responsibility for all small purchase activities in the Office of Logistics under the control of Procurement Division. At the same time, move [REDACTED] from its present organizational niche to the control of GPB/PD. Concurrently with these two organizational moves, designate a single manager to oversee and control this now completely centralized function. It is recommended the single manager be whoever fills the position of Chief, GPB/PD.

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b. Upon completion of the steps outlined in a above, transfer the responsibility for determining the procurement action unit from Supply Management Branch, SD, to General Procurement Branch, PD. The timing and methodology for a smooth transition of the responsibility should be left up to the Chiefs of the units.

c. Implement the previously identified daily reporting system for individual buyers, with the reports flowing through the immediate supervisors to the newly designated single manager.

d. Institute a comprehensive, vigorously administered backlog management program.

e. Draw up a comprehensive training plan for all new buyers with the ultimate objective of preparing them for performance in any of the small purchases units.

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2. Whether or not the recommendation to merge all of the small purchasing units under a single manager is approved and implemented, the several management controls recommended are important enough to be considered seriously for implementation regardless of the organizational structure. Closer control of the work flow, day-to-day management of the backlog, and increased individual production are essential if any improvements in performance are to be realized.

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EXHIBIT I

CHARACTERISTICS OF FIVE SMALL PURCHASE ACTIVITIES

	<u>Westinghouse</u>	<u>GSFC</u>	<u>DSS-W</u>	<u>Agency</u>	<u>State</u>	<u>Comments</u>
Approx. Annual Vol.	104,000	18,600	34,000	18,600	6,000	Buy's
No. of Buyers	30	10	19	17	6	Mgr. not included
Av. Buy's/Buyer/Day	14	8	7	4.4	4	Approximate
Through-put (days)	14	20	20	23	15	Estimated
Time Available to Buy	95%	80%	90%	75%	90%	Estimated
Grade Range of Buyers	(GS 05-12)	GS 04-07	GS 04-11	GS 07-13	GS 06-11	Westinghouse \$ equivalents
Av. Grade of Buyers		GS 06	GS 07	GS 10	GS 11 ¹	
Single Item Req'n.	No	No	No	No	No	
Req'n. Pre-buyer Processed	Yes	No	No	Yes	No	
Follow-up by Buyers	Occasional	Occasional	Occasional	Yes	Yes	
Separate Expedite Section	Yes	Yes	Yes	Yes ²	No	
Buying Done By Phone	Yes	Yes	Yes	Yes	Yes	To extent possible

Footnotes¹One trainee is GS-06; buyers are GS-11.²CCDB follows-up only to point where contact is required with vendors. Buyers take over from that point.

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	<u>Westinghouse</u>	<u>GSFC</u>	<u>DSS-W</u>	<u>Agency</u>	<u>State</u>	<u>Comments</u>
Buyers Commodity-oriented	Yes	No	Yes	Yes	Yes	
P.O.'s Typed by Buyers	No	Yes	No	No	No	
Daily Production Report for Each Buyer	No	Yes	No	No	No	
Buy's From BPA's	Some	40%	Some	10%	Some	
Average Backlog		1 wk.	2 wks.	4-5 wks.	2-3 wks.	

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PROGRAM:

- ☐ REGULAR SMALL PURCHASES
☐ TRAINEE
☐ LIBRARY SUBSCRIPTIONS
☐ REPAIR & MAINTENANCE

\$0-\$250 BACKLOG:

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III

SMALL PURCHASES REUSE TIME WORK SHEET

Program

0	12	24	
1	13	25	
2	14	26	
3	15	27	
4	16	28	
5	17	29	
6	18	30	
7	19	31	
8	20	32	
9	21	33	
10	22	34	
11	23	35	

Average:

0	12	24	36	48	60	72	84	96
1	13	25	37	49	61	73	85	97
2	14	26	38	50	62	74	86	98
3	15	27	39	51	63	75	87	99
4	16	28	40	52	64	76	88	
5	17	29	41	53	65	77	89	
6	18	30	42	54	66	78	90	
7	19	31	43	55	67	79	91	
8	20	32	44	56	68	80	92	
9	21	33	45	57	69	81	93	
10	22	34	46	58	70	82	94	
11	23	35	47	59	71	83	95	

Average:

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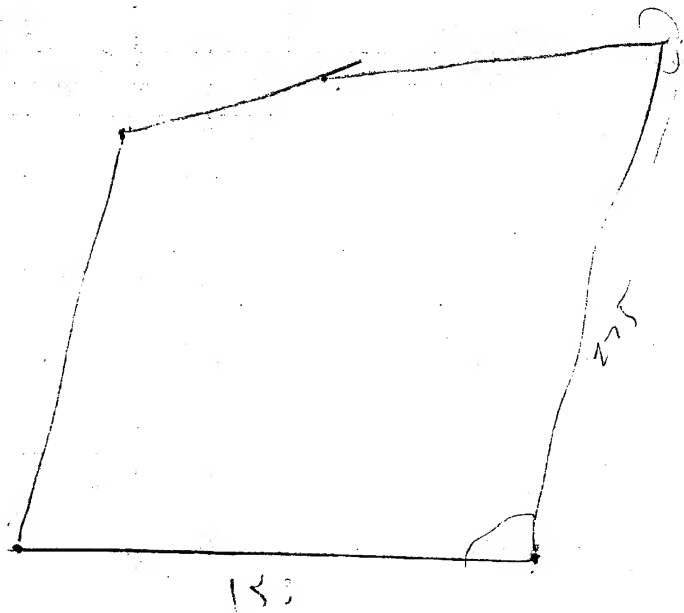
FACILITIES SUPPORT BRANCH

INDIVIDUAL PURCHASING AGENT PRODUCTIVITY LOG.

Purchasing Agent															
		Wkly	Cum	Wkly	Cum	Wkly	Cum	Wkly	Cum	Wkly	Cum	Wkly	Cum	Wkly	Cum
	PR's (\$250)														
	PR's (\$2500)														
	Total PR's														
	\$ Under \$250														
	Hours Worked														
	Productivity														
	PR's (\$250)														
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